LEGACY ENERGY

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Energy Market Report

Report Date: October 2, 2015

Report Week: September 23 to September 30, 2015

Questions?
Contact Legacy Energy
888-351-0981
info@legacyenergy.com
www.legacyenergy.com

News Tracker:

-Natural gas prices declined in most market locations over the Report Week (Wednesday, September 23 to Wednesday, September 30). The Henry Hub spot price fell from $2.59/MMBtu to $2.47/MMBtu during the Report Week.

-The October NYMEX natural gas futures contract expired on Monday, September 28 at $2.563/MMBtu, and the November contract moved into the near-month position. Over the Report Week, the November contract fell from $2.638/MMBtu to $2.524/MMBtu.

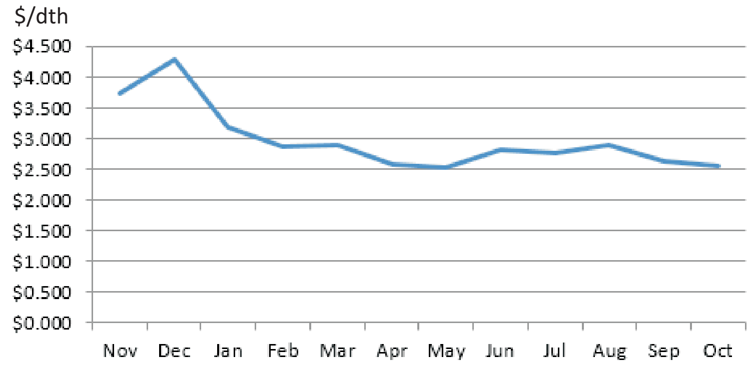
-Working natural gas in storage increased to 3,538 Bcf as of Friday, September 25. A net injection into storage of 98 Bcf for the week resulted in storage levels 15% above a year ago and 5% above the five-year average for this week. Market expectations, on average, called for a build of 100 Bcf for this week. From April 3 (the beginning of the injection season) through September 25, net storage injections totaled 2,077 Bcf, or 174 Bcf lower than the 2,251 Bcf injected during the same 26 weeks in 2014. During these weeks for the years 2010-14, net injections into storage averaged 1,735 Bcf. The estimated average unit value of the natural gas put into storage from April 3 to September 18 this year is $2.75/MMBtu, 36% lower than the average value of $3.97/MMBtu for the same 24 weeks last year. The highest winter-month Nymex price (the January 2016 contract) in trading for the week ending September 25 averaged $2.93/MMBtu. This price is 35¢/MMBtu more than the November Nymex contract price. A year ago, the difference was 37¢/MMBtu.

-The total rig count declined by four units from the previous week, with 838 units in service as of September 25, according to data released by Baker Hughes Inc. This was 1,093 units below the number of rigs during the same week last year. The oil rig count decreased by four units to 640, while the gas rig count declined by one unit to 197.

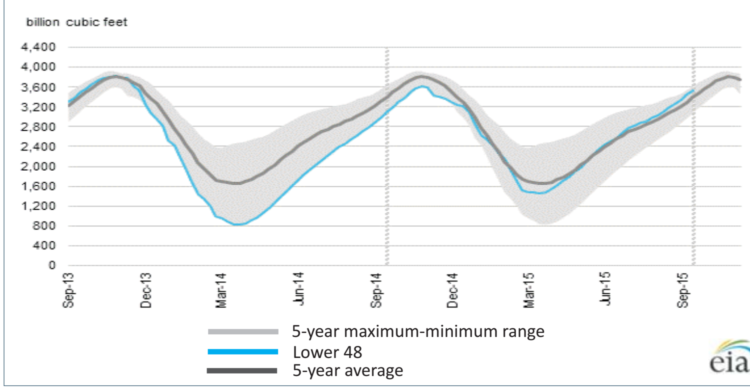
-Hurricane Joaquin strengthened to a Category 4 storm on Thursday, October 2 which includes winds of up to 156 miles per hour. The storm's path is uncertain but could make landfall on the East Coast this weekend, when power outages are a possibility. While forecasts for Hurricane Joaquin do not currently seem to be affecting natural gas markets, the storm could cause decreases in consumption through power outages. On Thursday morning, the category 4 storm was hovering in the Bahamas, and the National Hurricane Center projects that Joaquin could make landfall on the East Coast this weekend. Virginia and New Jersey have declared states of emergency ahead of forecasts for heavy rain on Thursday and Friday.

Excerpted from eia

Monthly NYMEX Natural Gas Settle Price Nov 2014 - Oct 2015:



Working nat. gas in underground storage as of September 25, 2015:



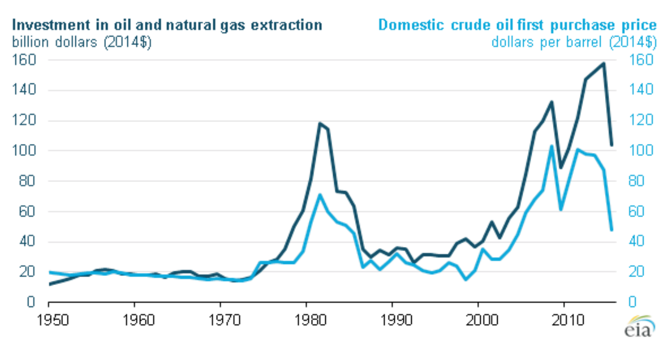
Forward 12-month NYMEX natural gas strip price - Nov15-Oct16:

Process Load-weighted $2.682/dth (w/w -$0.135)

Heat Load-weighted $2.693/dth (w/w -$0.159)

Sustained low oil prices could reduce exploration and production investment:

Oil prices reflect supply and demand balances, with increasing prices often suggesting a need for greater supply. Greater supply, in turn, typically requires increased investment in exploration and production (E&P) activities. Lower prices reduce investment activity. Overlaying annual averages of the domestic first purchase price (adjusted for inflation) on oil and natural gas investment reveals that upstream investment is highly sensitive to changes in oil prices. Given the fall in oil prices that began in mid-2014 and the relationship between oil prices and upstream investment, it is possible that investment levels over the next several years will be significantly lower than the previous 10-year annual average. Oil production is a capital-intensive industry that requires management of existing production assets and evaluation of prospective projects often requiring years of upfront investment spending on exploration, appraisal, and development before reserves are developed and produced. Previous investment cycles provide insights into how investment responds to crude oil price changes. In 1981 & 1982, after crude oil prices significantly increased, investment topped out at more than $100 billion (in 2014 dollars) and then averaged $30 billion to $40 billion per year into the early 2000s as crude oil prices fell and remained in the $20-$30 per barrel (b) range. From 2003 to 2014, investment spending increased from $56 billion to a high of $158 billion as crude oil prices increased from $34.53/b to $87.39/b, including several months of prices reaching more than $100/b. EIA's 2015 Annual Energy Outlook Reference case projects real domestic first purchase prices to average about $70/b in 2020. This price level could result in substantially lower annual oil and natural gas investment over the 2015-20 period than the annual average of $122 billion spent during the 2005-14 investment cycle crest period.



"Whenever you find yourself on the side of the majority, it is time to pause and reflect." -Mark Twain